

# A CITIZEN'S GUIDE TO THE CITY'S FINANCES



**Grand Rapids, Michigan  
For the Fiscal Year Ended  
June 30, 2011**

## Quick Facts

The City of Grand Rapids is the second largest city in the state of Michigan. The City was first incorporated as a village in 1838 and 12 years later became a city with a mayor-council form of government. In 1916, the current commission-manager form of government was adopted. In addition to the elected seven non-partisan members of the City Commission, the City Comptroller and Library Board are elected. Key data as of June 30, 2011:

- Population: 188,040
- Land Area: 44.4 square miles
- Unemployment rate: 9.0%
- High School Graduates: 82.6%
- Median Household Income: \$38,344
- Average Residential Property Taxable Value: \$47,704
- City Budget: \$301,244,497
- Number of Employees: 1,752
- Revenue from Taxes: \$101,304,165
- City Property Tax Mills: 8.3711
- General Fund Expenditures: \$98,089,367
- Police & Fire Expenditures: \$74,187,140
- Bonded Debt: \$536,581,090

## The City's Mission

*The City of Grand Rapids believes in the dignity and worth of all people and in the right of every citizen to have equitable access to the benefits of urban life. We believe in the rights of all citizens to express their views and the responsibility of the City government to respond to those views. As government representatives, we will help shape the future to assure that the City will continue to be a place where the benefits of urban life can be enjoyed.*



## Dear Residents of Grand Rapids,

We are pleased to present the 2011 Citizen Guide to the City's Finances. The numbers in the report come from the audited numbers from our 2011 Comprehensive Annual Financial Report, or CAFR, which is the official audit report of the City's financials.

The information presented in this guide discusses governmental and business-type services as well as the City's long-term obligations. For a more comprehensive presentation of the City's finances please refer to the CAFR, which is available on the web at [www.grcity.us/comptroller](http://www.grcity.us/comptroller).

In fiscal year 2011, the City spent over \$301 million on a variety of services ranging from police and fire to parks and recreation to water and sewer. The City funded these activities through taxes, charges, revenue sharing, and borrowing. The City's debt obligations totaled \$537 million. Pension obligations are estimated to be underfunded by \$118 million and retiree health care obligations are estimated to be underfunded by \$163 million. Increased spending, growing debt, and large portions of unfunded liabilities will continue to pose substantial challenges to the City in upcoming years.

If you have questions about this document, the Comprehensive Annual Financial Report, or the functions of the Comptroller, please do not hesitate to contact us at [comptroller@grcity.us](mailto:comptroller@grcity.us) or 616.456.3189.

Sincerely,



Donijo Robbins De Jonge  
City Comptroller



Scott Buhrer  
Chief Financial Officer

### What's Inside:

The City Officials – p.2  
Financial Highlights – p.3  
City-Wide Services – p.4  
Governmental Services – p.5  
Business-type Services – p.10  
Long-Term Obligations – p.11  
Accounting & Fund Structure – p.14

## The City Commission

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### First Ward Commissioners



Walt Gutowski  
[waltgutowski@grcity.us](mailto:waltgutowski@grcity.us)  
616.456.3035



Dave Shaffer  
[dshaffer@grcity.us](mailto:dshaffer@grcity.us)  
616.456.3035

### Mayor



George Heartwell  
[mayor@grcity.us](mailto:mayor@grcity.us)  
616.456.3168

### Second Ward Commissioners



Rosalynn Bliss  
[rbliss@grcity.us](mailto:rbliss@grcity.us)  
616.456.3035



Ruth E. Kelly  
[rkelly@grcity.us](mailto:rkelly@grcity.us)  
616.456.3035

### Third Ward Commissioners



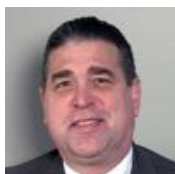
Elias Lumpkins, Jr.  
[elumpkins@grcity.us](mailto:elumpkins@grcity.us)  
616.456.3035



James B. White Sr.  
[jwhite@grcity.us](mailto:jwhite@grcity.us)  
616.456.3035

## Finance Officials

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Scott Buhrer  
Chief Financial Officer  
[sbuhrer@grcity.us](mailto:sbuhrer@grcity.us)  
616.456.3951



Donijo Robbins De Jonge  
City Comptroller  
[comptroller@grcity.us](mailto:comptroller@grcity.us)  
616.456.3189



Al Mooney  
City Treasurer  
[amooney@grcity.us](mailto:amooney@grcity.us)  
616.456.3020

# Financial Highlights

## Local Economy

The City is the economic and cultural hub of West Michigan situated on the Grand River approximately 28 miles east of Lake Michigan and 66 miles west of Lansing, the state capital. The City encompasses an area of 44.4 square miles with a population of 188,040 making it the second largest city in the state of Michigan and the 124th most populated in the United States.

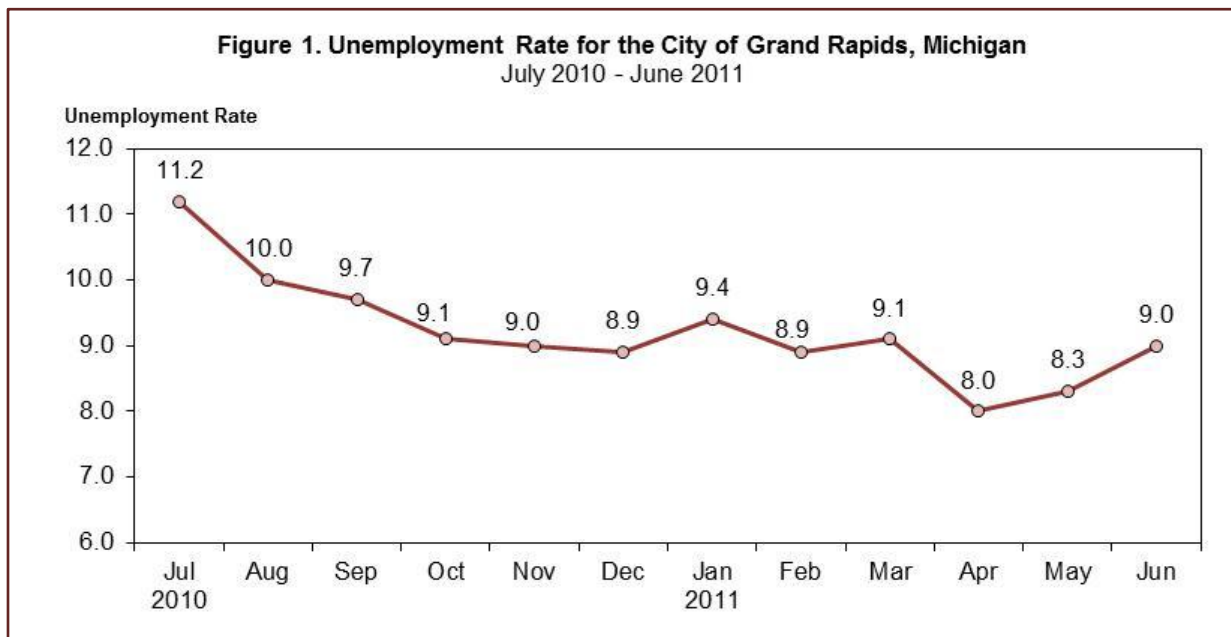
The City boasts a diverse economy hosting major industries such as trade, transportation, utilities, manufacturing, education and health services, and professional and business services. The top 12 are listed in the chart to the right. All told, these companies provide 47,000 jobs to the West Michigan economy (The Right Place, 2011 West Michigan Fact Sheet).

In the past year, unemployment has dropped 2 percentage points from 11 percent in July 2010 to 9 percent in June 2011 (see Figure 1). Grand Rapids benefits from the growth of the economy in west Michigan, but unemployment in Grand Rapids remains higher than the unemployment rate for West Michigan but lower than the unemployment rate of the state of Michigan. The results of this continued high unemployment and job loss include a declining population as well as a smaller taxable base for income and property.

### Top Employers

1. Spectrum Health
2. Meijer, Inc.
3. Axios, Inc.
4. Spartan Stores, Inc.
5. Amway, Inc.
6. Grand Rapids Public Schools
7. Steelcase, Inc.
8. Grand Valley State University
9. St. Mary's Health Care
10. Metro Health Hospital
11. US Postal Service
12. Siemens Dematic

**Figure 1. Unemployment Rate for the City of Grand Rapids, Michigan**  
July 2010 - June 2011



## Financial Condition

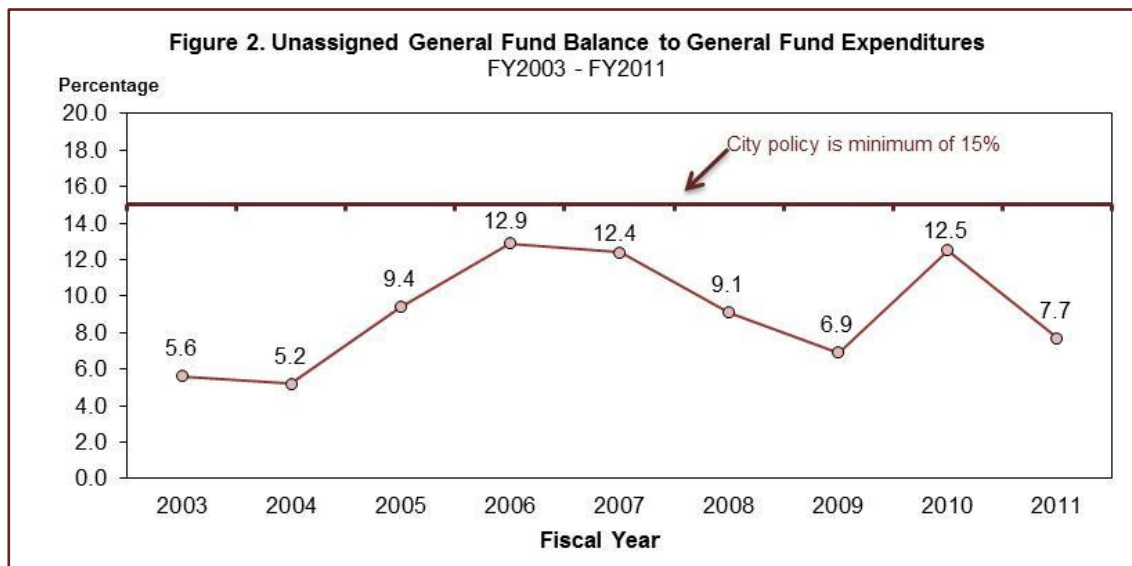
For the past decade, the financial condition of the City has been deteriorating and without the reduction in staffing, wages, and benefits and without the temporary income tax rate increase, the current financial condition this fiscal year would have been much worse. The temporary income tax rate increase simply provides management with a small window of time to solve its short- and long-term financial problems.

Similar to previous years, this fiscal year ended with a deficit in governmental funds; however, the deficit was much smaller than years past. The FY2012 adopted budget projects deficits over the next several years.

Other factors that affect the City's financial position include the \$537 million in long-term bonded debt obligations, \$118 million in unfunded pension obligations, and roughly \$163 million in unfunded retiree health care obligations. Growing unfunded liabilities coupled with these uncertain economic conditions continue to pose substantial threats to the City's financial sustainability.

**Growing unfunded liabilities coupled with these uncertain economic conditions will continue to pose substantial threats to the City's financial sustainability.**

The City Commission adopted a new fund balance policy that applies to fiscal year 2011 and beyond. This policy states specifically that the unassigned fund balance, which is the residual classification for the General Operating Fund only and includes all amounts not contained within the other classifications, shall be maintained at no less than 15% of General Operating Fund expenditures. As Figure 2 illustrates, the City has yet to achieve this 15% minimum fund balance. Until the City implements more robust financial policies with spending and revenue triggers the 15% minimum is likely to remain unattainable in years to come.





# What the City Does & Its Costs

## City-Wide Services

The City of Grand Rapids provides a number of services such as police and fire, parks and recreation, streets and sanitation, and water and sewer. These services are paid for through a number of funding sources such as taxes, charges, fees, and intergovernmental revenue sharing and grants. When the City accounts for these activities, it separates them into four broad activities: governmental, business-type, fiduciary, and component units. Our focus here is on the first two.



**Governmental Services.** Activities such as police, fire, traffic safety, library services, refuse and recycling, parks and recreation, economic and community development, and general government functions (e.g., Attorney, Treasurer, Manager, Clerk, and Comptroller) are classified as governmental services. These activities are funded by income and property taxes, charges for services, and other general revenue sources such as revenue sharing from the state or grant monies from the state and federal governments. For accounting purposes, the City uses five broad categories to track and monitor governmental services: 1) police & fire, 2) public works, 3) general government, 4) culture & recreation, and 5) urban & community development.

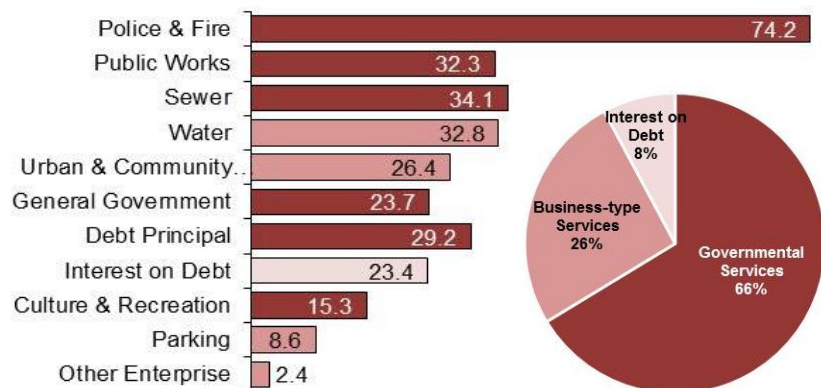


**Business-Type Services.** The City also provides business-type activities such as water and sewer. Business-type services are those activities that are funded by charges and fees received for the use of these services. For example, when you pay your water bill, that money goes directly to the water department and cannot be used to pay for the fire department or any other governmental or business-type service.

## Costs of Services

In fiscal year 2011, the City raised and spent \$302 million on governmental and business-type services including \$23.6 million in interest payments on the City's bonded debt. Figure 3 shows the cost of governmental and business-type services for fiscal year 2011. From fiscal year 2010 to fiscal year 2011, the cost of providing all of these services increased \$13 million or 4.5%.

**Figure 3. Cost of City-Wide Services**  
Fiscal Year 2011 (millions of dollars)



# Governmental Services

## Governmental Revenue

Governmental revenues come from taxes, charges for services, revenue sharing, and grants (see Figure 4). In fiscal year 2011, these revenue sources totaled \$188.4 million; an increase of \$9.3 million from fiscal year 2010 primarily due to the increase in the income tax rate. In fiscal year 2011, taxes on property and income generated \$101.3 million. Charges and fees associated with building inspections, library charges, refuse collection, recreation programs, parking meters, parking tickets, and other charges and fees totaled \$29 million. The City received \$55 million, or 29%, from intergovernmental sources such as revenue sharing and grant monies from the state and federal governments. The remaining \$3 million are raised through investment earnings and other miscellaneous sources.

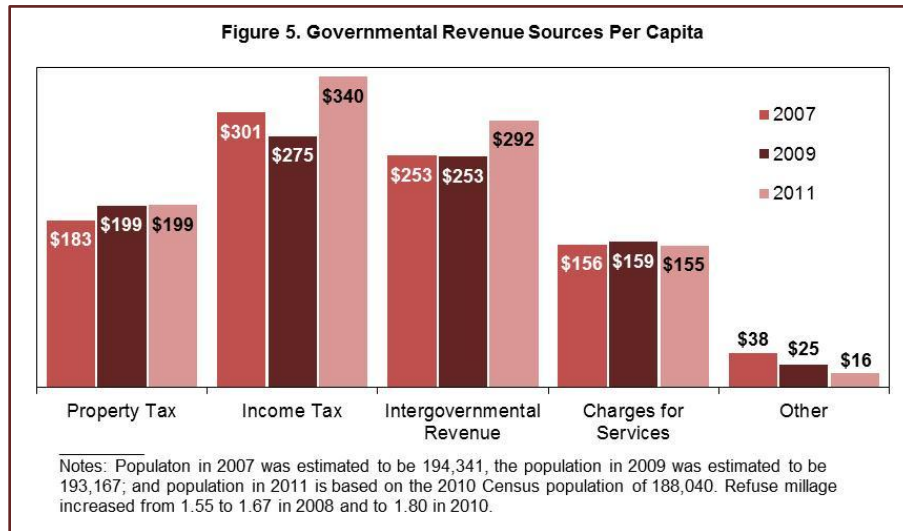
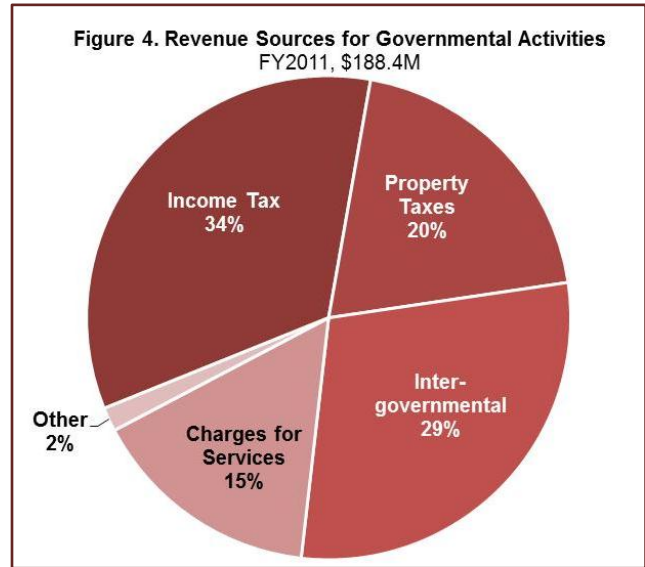


Figure 5 compares revenue to population (revenue per capita) for fiscal years 2007, 2009, and 2011; here we divide annual revenue dollars for each type of revenue source by the respective year's population. From FY2009 to FY2011, per capita revenue has increased for income tax, intergovernmental revenue sources, and

property tax. The increase in per capita income tax revenue is a result of a tax increase coupled with a declining population. The increase in per capita intergovernmental revenue stems from an increase in grants from the state and federal governments. Revenue from property taxes has decreased (see Table 1) as taxable values have declined due to the real estate market.

Table 1 provides a five-year summary of governmental revenue sources. Although revenues have ebbed and flowed over the past five years, total revenue has increased 4.2% from 2007 to 2011. However, the numbers in Table 1 have not been adjusted for inflation (measured by CPI) and since 2007, inflation has increased 8%. In other words, total revenue growth has not kept pace with inflation and as a result the

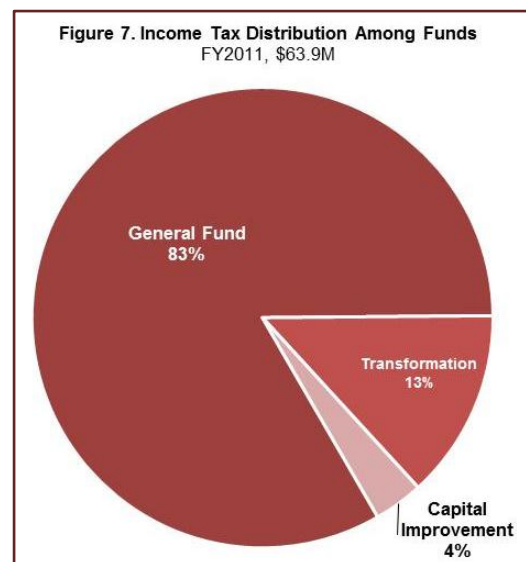
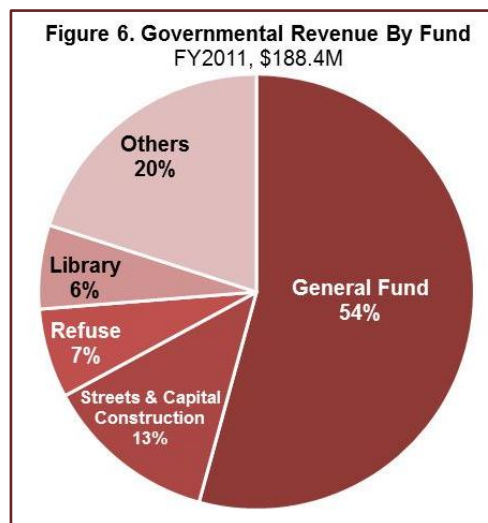
City's purchasing power from 2007 to 2011 has decreased. However, per capita revenue has kept pace with inflation, increasing roughly 8% from 2007 to 2011 because of increased income and property tax increases.

Table 1. Governmental Revenue Sources, 2007 - 2011					
Revenue Source	2007	2008	2009	2010	2011
Property Tax	\$ 35,486,005	\$ 37,819,932	\$ 38,371,239	\$ 38,551,862	\$ 37,451,239
City Income Tax	58,475,287	59,496,282	53,086,986	52,656,179	63,852,926
Intergovernmental Revenue	49,209,023	48,242,139	48,785,501	50,055,238	54,918,759
Charges for Services	30,324,158	31,410,778	30,778,591	32,964,001	29,181,322
Other	7,338,704	8,223,831	4,921,422	2,634,965	2,991,101
Total Revenue	\$180,833,177	\$185,192,962	\$175,943,739	\$176,862,245	\$188,395,347
%change		2.4%	-5.0%	0.5%	6.5%

Notes: The refuse millage increased from 1.55 to 1.67 in 2008 and increased again in 2010 to 1.80. Income tax rates increased and the personal deduction decreased July 1, 2011.

The City sets aside or reserves a portion of the revenue monies for specific activities or expenditures. For example, 46%, or \$86.2 million, of all governmental revenues are restricted and used for specific services such as the library, refuse, streets, capital construction, and parks, to name a few. Each of these is funded via a special tax; for example, residents pay separate property tax or millage for these services (see Table 2) or charged for using the service (e.g., garbage pickup) and those monies are reserved specifically for those activities. These monies are tracked through special revenue funds and capital funds.

The unrestricted portion of governmental revenue, the remaining 54% or \$102.2 million, is spent in the general fund, which pays for activities such as police and fire,



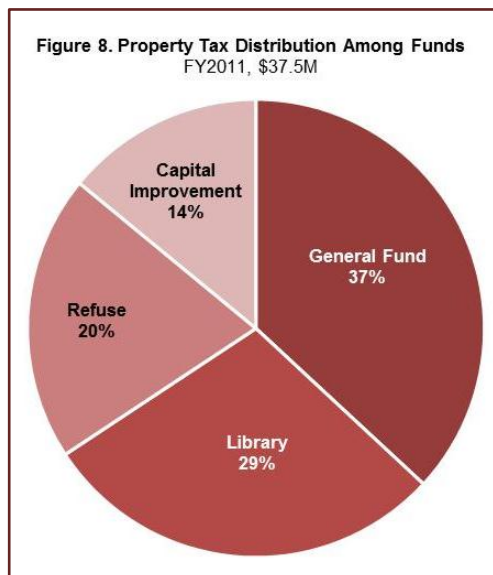
traffic safety, the executive office, and other governmental activities that do not have a special dedicated revenue source. Figure 6 presents the proportions of revenue by selected funds.

**Income Tax.** In Fiscal Year 2011, taxes on income generated \$63,852,926; an increase of \$11.1 million (or 21.3%) from the previous year. Income tax revenue is allocated to three funds: the general fund, the capital improvement fund, and the transformation fund, as illustrated in Figure 7. The transformation fund was created after the passage of the temporary income increase. This fund supports transformational efforts to improve the City's long-term sustainability.



**Property Tax.** Property tax revenue totaled \$37,451,239 in Fiscal Year 2011. Revenue from property taxes decreased \$1.1 million (or 2.9%) from the previous year. This decrease is a direct result of the decrease in property values across the City. In fact, property taxable values have dropped by more than 6.2% over the past two years. Revenue from property taxes is restricted to four different funds, as presented in the Figure 8. Property tax revenue is used to fund a portion of the following services: general government (such as police and fire), trash, recycling, and street sweeping, library services, and capital improvement costs.

The City assesses property at 50% of the market value; for example, if you own a home worth a \$100,000, the City assesses the property at half its value or \$50,000. The taxable value is often less than the assessed value because



**Table 2. Property Tax Rates Per \$1000 of Taxable Value**  
2009 - 2011

Service	2009	2010	2011
General Operating	4.1070	4.1070	4.1070
Promotional & Advertising	0.0107	0.0106	0.0108
Library	2.4533	2.4533	2.4533
Refuse	<u>1.6700</u>	<u>1.8000</u>	<u>1.8000</u>
Total City	<u>8.2410</u>	<u>8.3709</u>	<u>8.3711</u>
Total School	27.1768	26.8968	26.7668
Total State Education	6.0000	6.0000	6.0000
Total Intermodal Transit	1.1200	1.1200	1.1200
Total County	<u>5.3940</u>	<u>5.3940</u>	<u>5.3940</u>
Total Property Tax Mills	<u>47.9318</u>	<u>47.7817</u>	<u>47.6519</u>

of restrictions on the annual growth of taxable value. The FY2011 property tax rate for City services was 0.0083711 or \$8.3711 per \$1,000 of taxable value. Based on this rate and the 2011 average taxable property value in Grand Rapids of \$47,704, the average tax bill would be \$399.34. Table 2 provides the property tax rates per \$1000 of taxable value for the City, schools, state, and county for years 2009 through 2011.

## Governmental Expenditures

In fiscal year 2011, the City spent \$185.8 million to pay for governmental services such as police and fire, refuse, recycling, streets, library, community dispatch, and parks, to name just a few. Figure 9 presents the proportion of governmental expenditures by selected activities for fiscal year 2011. In 2011, like every year, the City spent the largest portion of taxpayer dollars on police and fire services.

Table 3 provides a five-year historical summary of expenditures for major services—those that cost \$5 million or more per year. Since 2007, expenditures have increased by almost \$3.4 million (or 1.9%). Similar to the revenue sources listed in Table 1, the dollar amounts in Table 3 are not adjusted for inflation. Total growth in governmental expenditures has been less than the growth of inflation.

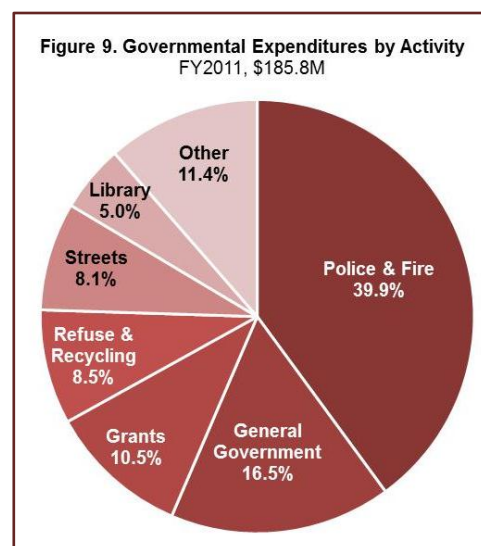


Table 3. Governmental Expenditures, 2007 - 2011						2011 Per Capita
Expenditure/Service	2007	2008	2009	2010	2011	
General Government	\$ 38,411,212	\$ 38,668,856	\$ 34,943,479	\$ 31,116,662	\$ 30,704,304	\$ 163
Police & Fire	67,908,407	71,621,129	69,586,390	72,110,735	74,187,140	395
Library	9,353,291	9,486,089	9,839,415	9,910,687	9,323,622	50
Refuse & Recycling	11,178,485	11,881,554	12,332,047	12,580,520	15,872,100	84
Streets	19,815,541	20,863,789	19,585,805	17,503,833	14,984,830	80
Capital Improvements	6,190,296	10,441,772	8,484,189	6,862,994	4,531,626	24
Parks	6,329,902	6,707,579	7,467,819	6,923,654	5,978,430	32
Grants	10,839,014	9,076,455	9,041,017	13,628,994	19,508,211	104
Other	14,247,537	14,226,430	15,385,597	18,923,915	14,164,308	75
Interfund Transfers	(1,907,689)	(2,799,276)	(2,651,422)	(13,461,260)	(3,454,371)	(18)
Total Expenditures	\$ 182,365,996	\$ 190,174,377	\$ 184,014,336	\$ 176,100,734	\$ 185,800,200	\$ 988
%change		4.3%	-3.2%	-4.3%	5.5%	

The last column of Table 3 presents the per capita expenditures by service. Overall, per capita expenditures have increased \$58, or 6%, from 2007 to 2011, a growth rate slightly less than inflation.

As stated earlier, the City sets aside or reserves a portion of monies to pay for specific activities or expenditures. In fiscal year 2011, 48% (\$91.2 million) of governmental fund expenditures were accounted for in 24 different funds. The remaining monies, 52% or \$98.1 million, were used to pay general fund expenditures such as police, fire, and general government services. Overall, 68.9% of general fund expenditures are comprised of police and fire expenditures.

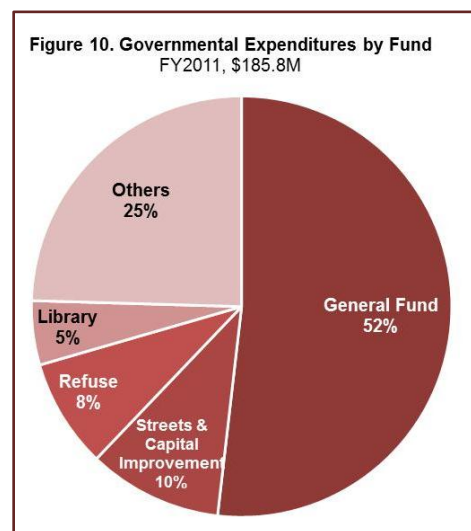
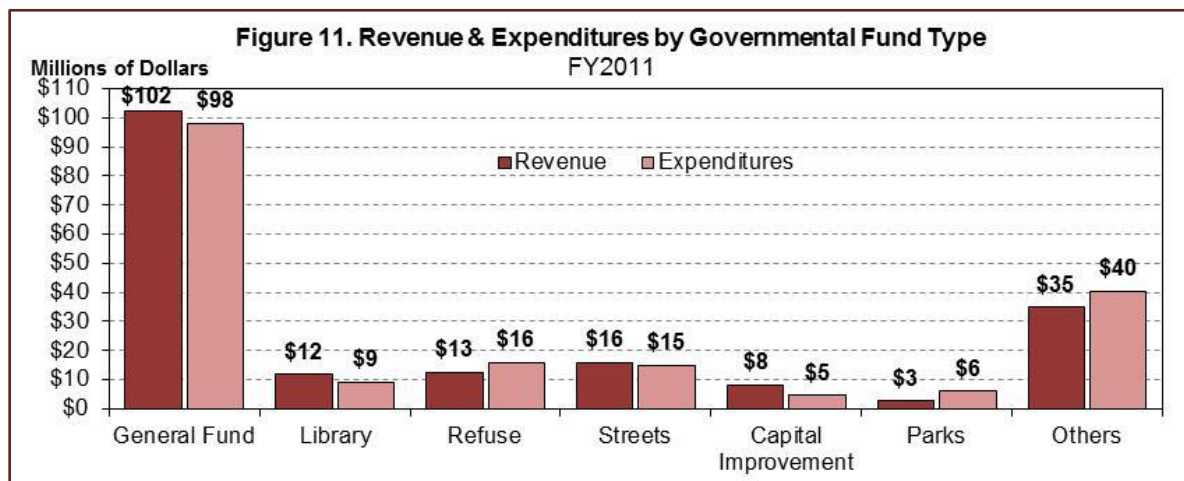


Figure 11 shows governmental revenue and expenditures by governmental fund type. A number of funds operated with deficits and governmental services had an overall total deficit of \$859,224.



## Business-Type Services

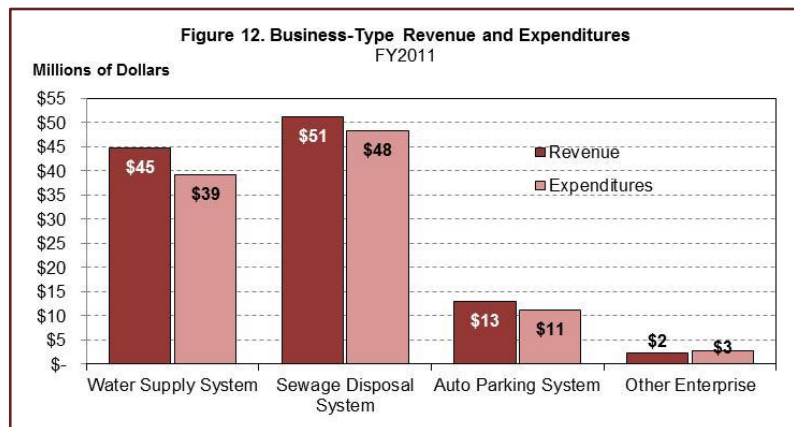
### Business-Type Services Revenue

Revenue to fund business-type activities comes from charges and fees for those services as well as grants, interest on investments, and other miscellaneous revenue sources. In FY2011 revenue for business-type services totaled \$107.8 million, a slight decrease from 2010. Table 4 provides a historical summary of business-type revenue for fiscal years 2007 through 2011. Overall, revenue from these services has increased \$5.6 million, or 5.5%, from 2007 to 2011.

Revenue	2007	2008	2009	2010	2011	2011 Per Capita
Charges	\$ 91,620,368	\$ 95,591,004	\$ 95,809,500	\$ 102,162,255	\$ 105,230,818	\$ 560
Grants	3,188,310	2,415,378	1,836,608	1,165,851	208,000	1
Interest	6,878,811	4,435,828	2,677,764	2,030,100	975,845	5
Miscellaneous	524,004	1,339,685	2,816,747	2,755,680	1,378,750	7
Total Revenue	\$ 102,211,493	\$ 103,781,895	\$ 103,140,619	\$ 108,113,886	\$ 107,793,413	\$ 573
Percent Change		1.5%	-0.6%	4.8%	-0.3%	

### Business-Type Services Expenditures

The City provides a variety of business-type services; for example, the City provides water, sewer, and parking services, owns and operates a municipal golf course and numerous cemeteries, and owns but contracts out operations for Belknap Ice Arena. Of these services, Sewage Disposal (now called Environmental Services), Water Supply, and Auto Parking



Services are the largest business-type services. The City spent \$101.5 million on all business-type services, a 5.1% increase from 2010. Figure 12 shows business-type revenue and expenditures by service activity. Table 5 provides a historical summary of business-type expenditures for fiscal years 2007 through 2011. Overall, business-type expenditures have increased, \$4.9 million or 4.8%, from 2007 to 2011.

Service	2007	2008	2009	2010	2011	2011 Per Capita
Water Supply System	\$ 41,641,978	\$ 39,172,761	\$ 40,839,383	\$ 41,641,978	\$ 39,226,278	\$ 209
Sewage Disposal System	42,900,993	38,537,806	45,152,263	42,900,993	48,298,534	257
Auto Parking System	9,295,459	8,451,634	9,192,422	9,295,459	11,269,592	60
Other Enterprise	2,751,011	2,369,229	2,781,803	2,751,011	2,699,755	14
Total Expenditures	\$ 96,589,441	\$ 88,531,430	\$ 97,965,871	\$ 96,589,441	\$ 101,494,159	\$ 540
Percent Change		-8.3%	10.7%	-1.4%	5.1%	

## **Financial Condition**

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The financial position of any organization is measured by its ability to pay its bills today, tomorrow, and beyond. To pay its bills today, the City must have enough money on hand [revenue compared to expenditures] and have additional monies [reserves] to pay for expenses resulting from unanticipated revenue shortfalls, disasters, catastrophic events, or other unforeseen events. These reserves are similar to a savings account and are called spendable equity or unreserved fund balance. Moreover, the City must have enough money to pay for its long-term obligations of debt, pension, and retiree health care.

When comparing annual revenue to annual expenditures, we believe that governments should balance their budgets; which is good practice. However, revenues and expenditures ebb and flow and over time best practice occurs when governments achieve balance over a number of years, such as a five-year time period. That is, in some years the City will have a surplus and able to save money and build equity to be spent in years in which a deficit occurs.

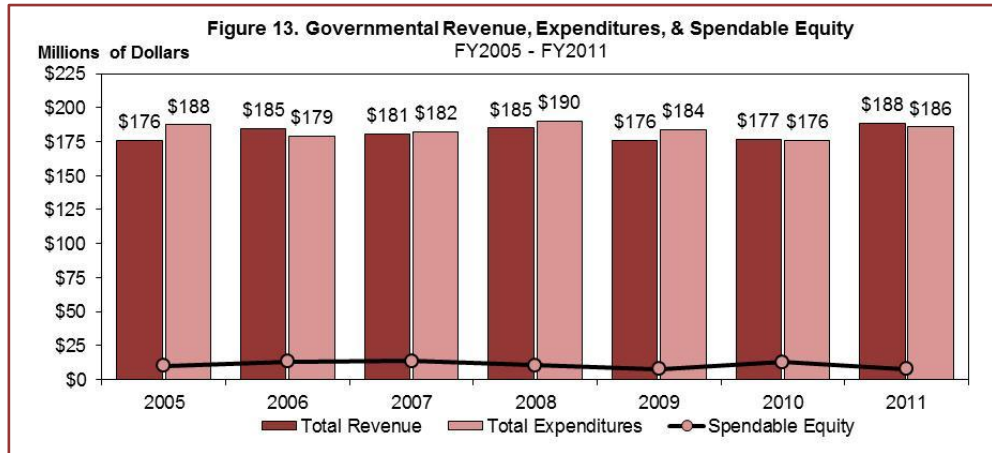
The spendable equity or unreserved fund balance is a measure of near-term funding capabilities where the amount should be large enough to cushion against any unforeseen consequences. City policy states that at a minimum, spendable equity should be 15 percent of current annual spending. That is, if events occurred that would interrupt or stop revenue sources, the City should have enough money on hand to provide services for at least 55 days ( $365 \text{ days} \times 15\%$ ). The hallmark of a city with a strong credit rating (AA+) is a spendable equity of at least 25 percent, or enough for 90 days ( $365 \text{ days} \times 25\%$ ).

Like other parts of this report, we separate the analysis into governmental services and business-type services. Governmental fund balance is separated into three categories: reserved, designated, and spendable. Reserved and designated must be retained or used for certain expenditures, such as debt service and contractual agreements. The spendable fund balance is unreserved and can be used to pay for any service. The fund balance for business-type services is called net assets and these are composed of capital assets, restricted net assets, and unrestricted net assets (or spendable equity). The spendable portion for both governmental services and business-type services is one measure used to monitor the City's financial condition.

### **Revenue, Expenditures, & Spendable Equity**

What is the City's near term financial position? Figure 13 presents the revenue, expenditures, and spendable equity for governmental services. Although governmental services have, at times, experienced large deficits, these deficits historically have been offset by interfund transfers. These transfers are used for cost allocation purposes. That is, the costs associated with the functions of the City Manager, City Comptroller, Chief Financial Officer, to name a few, are charged to departments across the City, from parks and recreation to water and sewer. The departments pay for their usage of the central support services provided by these individuals and their respective departments; the result is an internal charge and transfer of monies.

Overall, the small surpluses and projected deficits have hindered the growth of spendable equity. Beyond the small gains in 2006 and 2007, spendable equity decreased in 2008, 2009, and 2011.

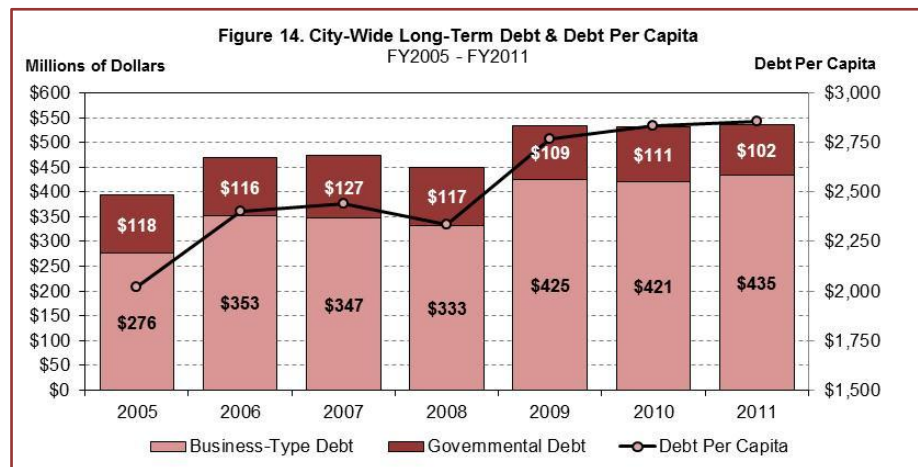


Spendable equity totaled \$7.9 million, or 4%, of total governmental expenditures or 8% of general fund expenditures in fiscal year 2011. If the City experienced a catastrophic event, the City would be able to provide governmental services for 14 days (365 days x 4%) or operate only its general fund expenditures for 29 days (365 days x 8%).

## Long-Term Debt & Unfunded Liabilities

To fully understand the long-run financial position of the City, we must also analyze and monitor long-term obligations. Long-term obligations include principal and interest on debt, unfunded health care obligations for current and future retirees younger than 65 years of age, and unfunded pension obligations for all qualified employees and retirees.

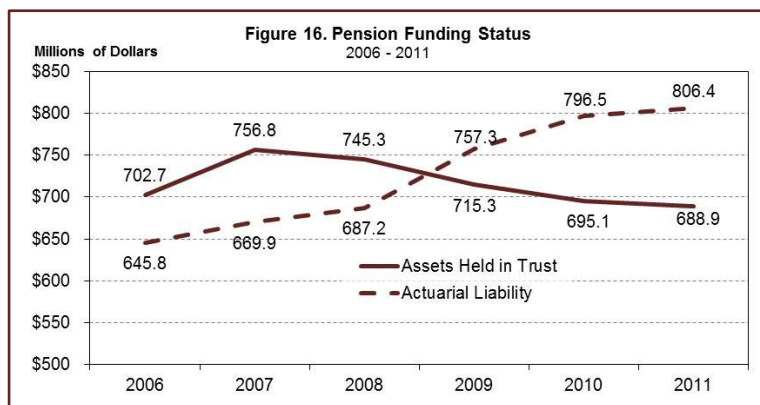
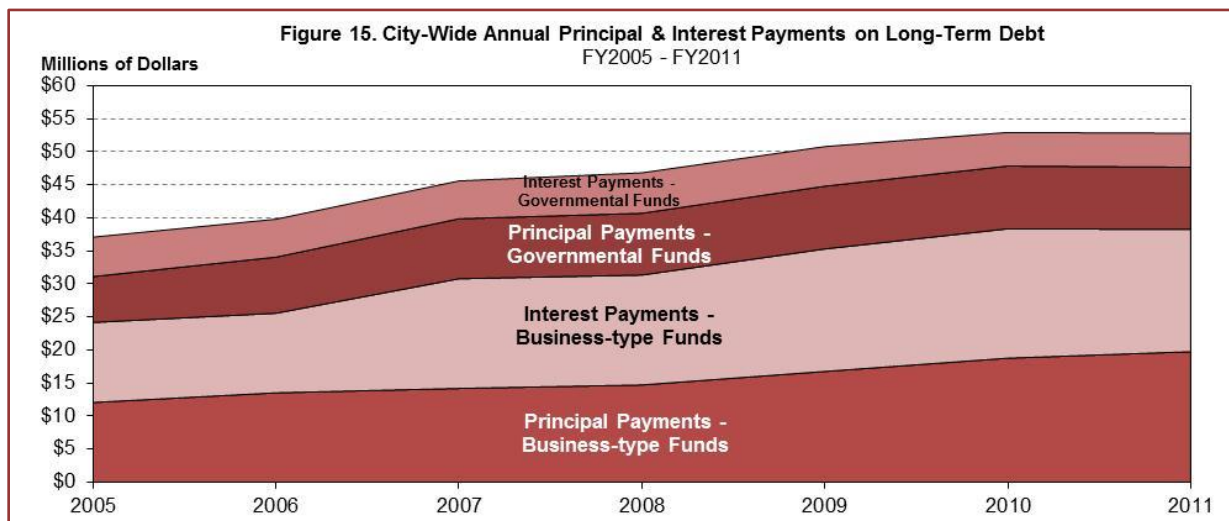
Since 2005, the City's long-term debt obligations have increased \$142.1 million, or 36 percent, from \$394.5 million in 2005 to \$536.6 million in 2011. Of the \$536.6 million of debt outstanding during fiscal year 2011, \$102 million has been issued to pay for the



governmental services' capital and infrastructure and the other \$434.6 million of debt has been issued to fund business-type capital expenditures. These numbers are principal only and do not include the interest cost of borrowing. Figure 14 shows City-wide debt for business-type and governmental funds from 2005 through 2011. Although the total long-term debt has stabilized in recent years, the debt per capita has increased over the same time period; debt per capita increased 41% or \$834. This is a result of the City's declining population. Water and sewer systems provide services to a customer base that stretches beyond the City and its population. As such, the bonded debt burden for these systems is shared by a larger population resulting in a lower per capita debt for water and sewer debt, which accounts for 90% of business-type debt.

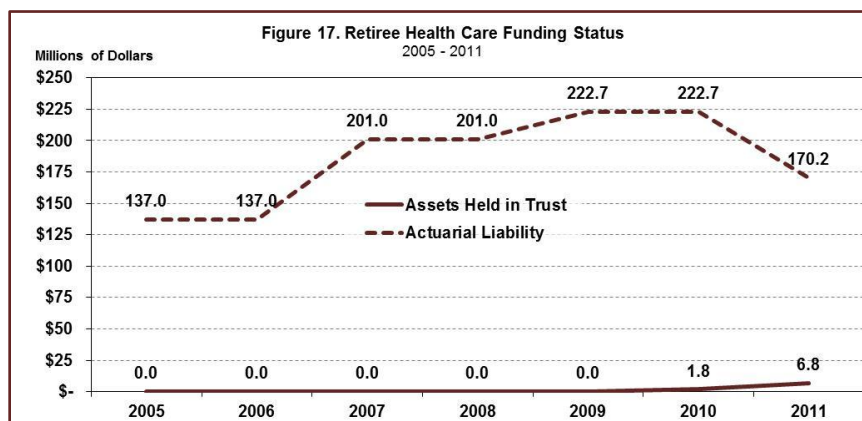


In 2011, the City expended \$23.6 million in interest payments, an increase of \$5.5 million since 2005. Figure 15 presents principal and interest payments for governmental and business-type debt from 2005 through 2011.



The City provides its employees with a pension plan [defined benefit] and its retirees with health care insurance until age 65. In 2011, liabilities exceeded assets for both the pension and retiree health care funds; in other words, both funds were underfunded. In order to achieve full-funding, the pension fund requires an additional \$118 million of assets and the retiree

health care fund needs an additional \$163 million of assets. Throughout fiscal year 2011, labor unions and management addressed the issue by moving new employees to a defined contribution retirement plan and requiring all employees to pay additional monies for pension and health care costs. The City is beginning to see the results of these efforts; assets for the retiree health care have increased and liabilities have decreased. In the case of pension funding, the changes have yet to be fully realized in the valuations. Overall, both funds are underfunded by 29%.

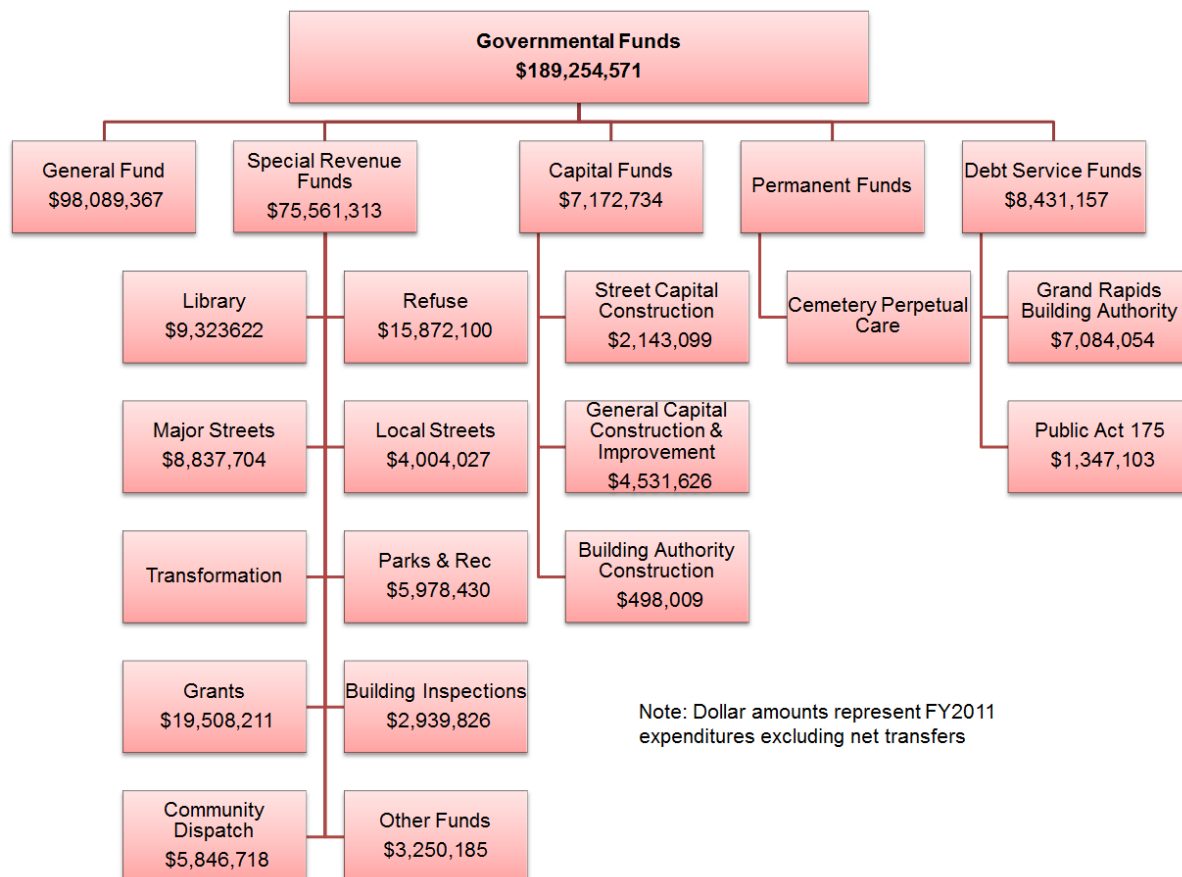


## Accounting & Fund Structure

The City of Grand Rapids accounts for expenditures and revenues according to the generally accepted accounting practices as defined by the Governmental Accounting Standards Board (GASB). These standards require public agencies to maintain separate accountability over financial resources dedicated for specific financial purposes through fund designations. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like state and other local governments, uses fund accounting to ensure and demonstrate compliance with finance-rated legal requirements. All of the City's funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

### Governmental Funds

Governmental funds are used to account for activities such as police, fire, traffic safety, refuse and recycling, parks and recreation, economic and community development, and general government functions such as the offices of the City Clerk, Treasurer, Manager, Attorney, and Comptroller. These activities are funded primarily by taxes and intergovernmental revenues. Governmental funds include five types of funds: general, special revenue, capital, permanent, and debt service. The following diagram illustrates the governmental fund structure and fiscal year 2011 expenditures excluding net transfers for the City of Grand Rapids.



The **general fund** is typically the most important fund of a municipality; it accounts for all resources not otherwise devoted to specific activities and finances many of the basic municipal functions, such as general administration, fire, and police. This fund receives most of the general tax dollars (e.g. income tax, and property tax) paid by the community. In fiscal year 2011, general fund expenditures totaled \$98.1 million, or 52% of governmental activities.

**Special revenue funds** account for receipts from revenue sources that have been earmarked for specific activities. For example, the City levies a special or dedicated property tax for the library and refuse departments. Another example is the motor vehicle gas and weight taxes that the state of Michigan shares with local governments for street maintenance. These special revenues must be accounted for in separate funds because they are devoted to specific activities or projects. In fiscal year 2011, 40% (\$75.6 million) of governmental fund expenditures were accounted for in 18 different special revenue funds.

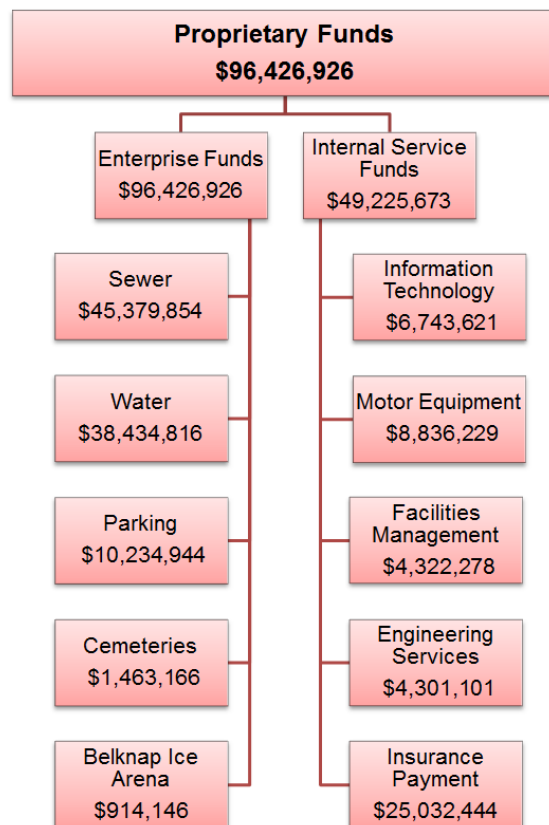
**Permanent funds** report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs. The City operates one permanent fund, the Cemetery Perpetual Care Fund. **Debt service funds** account for the financing of the interest and retirement of principal of general long-term debt, whereas **capital project funds** keep track of the acquisition of capital facilities. These acquisitions may be financed out of bond issues, grants-in-aid, or transfers from other funds. This type of fund is limited to accounting for the receipts and expenditures on capital projects. Any bond issues involved will be serviced and repaid by debt service funds. The City has two debt service funds and three capital project funds and in fiscal year 2011, these funds accounted for \$15.6 million of the City's expenditures.

## Proprietary Funds

Proprietary funds are used to account for a government's business-type activities which are supported mostly by charges for services. Examples of proprietary funds include enterprise funds and internal service funds. The figure to the right illustrates the proprietary funds and their costs for fiscal year 2011.

**Enterprise funds** account for business-type activities that are supported largely by user charges. The City operates five enterprise funds: water, sewer, parking, cemeteries, and Belknap Ice Arena. The fund for cemeteries also includes Indian Trails Golf Course. In fiscal year 2011, expenses for enterprise funds totaled \$96.4 million.

**Internal service funds** are similar to enterprise funds except that the services are not rendered to the general public but are for other governmental organization units within the same governmental jurisdiction. The operations of such activities like motor equipment services, information technology, and facilities maintenance have been placed under this type of fund to account for the cost of such services



Note: Dollar amounts represent FY2011 expenditures excluding net transfers

and to encourage economy in their use. Because these are internal costs, they are not added to the City's overall budget again because they are included in the original cost of total government.

## Fiduciary Funds

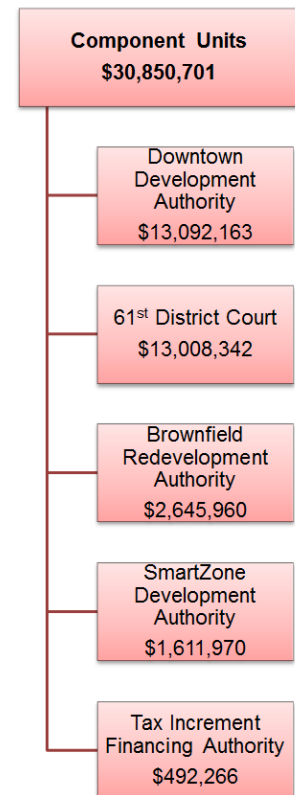
Fiduciary funds are used to account for resources held for the benefit of parties outside the government. These funds are not reflected in government-wide financial statements because the resources of these funds are not available to support the City's own programs. The City uses fiduciary funds to account for its pension trust, other post-employment benefit trusts [such as retiree health care], and private-purpose and agency funds.

## Component Units

Component units are legally separate entities for which the primary government is financially accountable. The City incorporates eight component units into its financial structure, five are discrete component units (provided in the figure to the right) and the other three are blended into existing funds. The blended component units include: Grand Rapids Building Authority (GRBA), City of Grand Rapids General Retirement System, and City of Grand Rapids Police and Fire Retirement System.

Blended component units, although legally separate entities, are part of the primary government's operations and are included as part of the primary government. Accordingly, the activities of the GRBA have been blended within the primary government's activities included in the Auto Parking System and various capital projects and debt service funds of the City. Both retirement systems are reported as pension trust funds within fiduciary funds.

Discretely presented component units are segregated from the primary government in the financial statements. This is done to emphasize that they are legally separate from the primary government. In fiscal year 2011, expenditures for discrete component units totaled \$30.9 million.



Note: Dollar amounts represent FY2011 expenditures excluding net transfers